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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)OFTHE SECURITIESEXCHANGE ACT OF 1934

For the fiscal year ended October31, 2002

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)OFTHE SECURITIESEXCHANGE ACT OF 1934

For the transition period from _to_

Commission file number: 0-29911

CALDERA INTERNATIONAL,INC.

(Exact name of registrant as specified in its charter)

Delaware
(State of incorporation)
355 South 520 West
Lindon, Utah 84042
(Address of principal executive offices, including zip code)

87-0662823
(I.R.S. Employer Identification No.)
(801)765-4999
(Registrant's telephone number, including area code)

Securities pursuant to Section12(b) of the Act: None
Securities registered pursuant to Section12(g) of the Act:

Title of Each Class
Common Stock, par value $.001 per share

Indicate by check mark whether the Registrant (1)has filed all reports required to be filed by Section13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12months (or for such shorter period that the Registrant was required to file such reports), and (2)has been subject to such filing requirements for the past 90days. YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of RegulationS-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference on PartIII of this Form10-K or any amendment to this Form10-K.

The aggregate market value of the common stock beneficially owned by non-affiliates of the Registrant, as of January27, 2003, was approximately $6.3million based upon the last sale price reported for such date on The Nasdaq Stock Market. For purposes of this disclosure, shares of Common Stock held by persons who hold more than 5% of the outstanding shares of Common Stock and shares held by officers and directors of the Registrant have been excluded because such persons may be deemed to be affiliates. The number of shares of the Registrant's Common Stock outstanding as of January27, 2003, was 11,962,313.

Documents Incorporated by Reference

Portions of the Registrant's definitive proxy statement relating to the Registrant's 2003 Annual Meeting of Stockholders are incorporated by reference in PartIII of this Form10-K where indicated.

PART I

Item 1. Business

The following discussion of the Company's business contains forward-looking statements that involve risks and uncertainties. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" in this Item 1, and the other documents we file with the Securities and Exchange Commission, including our recent filings on Form10-Q.

Overview

Our business is focused on serving the needs of small businesses, including replicated site franchisees of fortune 1000 companies, to have reliable, cost effective Linux and UNIX operating systems and software products to power computers running on Intel architecture. Our largest source of revenue is derived from our indirect, leveraged channel of partners, which includes distributors and independent solution providers (collectively, "resellers"). This reseller channel is worldwide with local Company offices in a number of countries that provide support to customers and resellers in that geographic area. The other principal channel for selling and marketing our products is through large corporations which have a large number of replicated sites or franchisees. We access these corporations through their information technology or purchasing departments with our direct sales team in the United States and through our reseller channel in countries outside the United States. In addition, we also sell our operating system products to original equipment manufacturers ("OEM's") through our direct sales team in the United States and our reseller channel in countries outside the United States.

On August26, 2002, Caldera International,Inc. announced that it would change its name to The SCO Group,Inc. ("SCO") pending stockholder approval. The name change is in response to the strong brand recognition related to the SCO OpenServer and SCO UNIXWare product lines that has been created over the last several years.

Background

The UNIX™ operating system was conceived on the premise that an operating system should be easily adapted to a broad range of hardware platforms and should provide a simple way of connecting programs. This basic concept was revolutionary in the 1960's when it was first articulated, but is proof today that the UNIX system engineers had an accurate vision of network computing that still valid today. Over the years, the UNIX System has been adapted for almost every OEM's hardware architecture and today UNIX has achieved the goal of seamlessly sharing data across heterogeneous environments. We enjoy a broad and deep set of intellectual property rights relating to the UNIX operating system as a result of our acquisition of the server and professional services groups from Tarantella,Inc.

The Linux operating system continues to pursue the goals laid out by the UNIX engineers, but at an accelerated pace. Linux not only adheres to open standards, but is built and maintained by a worldwide group of engineers who share the common goal of making open systems and open source ubiquitous. The increasing demand for anytime and anyplace access to information can only be satisfied in an environment where programs can be connected seamlessly. For these and other reasons, the same OEM's who embraced UNIX years ago are adopting Linux today. Linux can be used to power many of the current and future internet and software needs of businesses, academics and technical institutions around the world. Specifically, the benefits of Linux include: comprehensive internet functionality; flexibility, customizability and stability; interoperability with multiple systems and networks; low acquisition and maintenance costs; and compliance with technical and communication standards.

Despite these benefits, Linux as an open source system is not without drawbacks. We believe that Linux has not yet been widely adopted by businesses due to a number of factors, including: the fragmentation of Linux offerings; concerns about intellectual property protection for software designed to work with the Linux kernel; inadequate education and training; the lack of technical knowledge and support; concerns about the ownership of intellectual property rights underlying the Linux operating system; the difficulty in management and deployment; and the limited number of business applications available for use on Linux.

Historically, business users have lacked a software solution that suits their needs and can run in the Linux environment. For Linux to be fully supported in the small business environment, a wide variety of software solutions that are tailored for business, which is reliable and fully supported must be available. The software and technical support must promote the benefits of Linux for business and provide the proper education and training for customers to facilitate adoption. Proper distribution channels are also required to facilitate access to the business user. Linux as a small business solution must be able to accommodate business applications and be able to interoperate properly with the diverse environment of internal corporate information systems and the internet. It must have the flexibility to be maintained centrally or managed remotely. Finally, Linux must adhere and conform to commercial standards to incorporate the latest technological advancements and ensure wide acceptance.

The UNIX operating system complements Linux and addresses many of the drawbacks noted above for Linux. UNIX has had a long history of small business implementation, and has attracted a robust list of both customers and vendors that provide solutions. Sun, Hewlett-Packard, IBM, SCO and others have developed a large base of UNIX business applications to conduct internet and local transactions. On the Intel platform, SCO's OpenServer and UNIXWare products represent a low cost, Intel-compatible UNIX operating system available for business. SCO OpenServer and SCO UNIXWare are less expensive than UNIX operating systems offered by Hewlett-Packard and Sun. Our offerings permit businesses, particularly small businesses, to take advantage of the reliability of the UNIX operating system at a relatively low cost.

SCO continues to provide stable UNIX operating system products and offers a commercially viable Linux solution for the small business customer. Third-party software companies are actively developing software applications for use with SCO's UNIX and Linux products that enable small businesses to effectively run their operations.

Current Status

Sales of UNIX-based products and services have historically been declining. However, in the last three quarters of fiscal year 2002, our revenue stabilized at approximately $15.5million per quarter. During this same three-quarter period, we reduced our quarterly operating costs from $14.3million to $12.3million. We expect to continue to benefit from these cost cutting efforts in fiscal year 2003 and anticipate that our SCO OpenServer and SCO UNIXWare products will continue to provide a consistent revenue stream, although they will represent a decreasing percentage of total revenue. These UNIX products have a strong customer base and constitute a well-known brand with a reputation for quality and reliability.

We recently entered into an alliance, UnitedLinux, with other participants including Connectiva, TurboLinux and SuSe, to develop and promote a uniform version of Linux for use in the business community. We believe that this alliance will facilitate the adoption of the Linux operating system by businesses by permitting software developers to write business applications to a single standard and by giving businesses a reliable, tested, and supportable version of Linux. With our recent release of SCO Linux 4.0, we believe we have a commercially viable Linux operating system designed to meet the needs of the small business customer.

We also have a seasoned, mature sales channel of several thousand resellers focused on the small business market. This channel is a unique asset that will allow us to continue to provide reliable UNIX and Linux operating systems to our small business customers.

We also enjoy a broad and deep set of intellectual property rights relating to the UNIX operating system. We have recently initiated efforts to garner value from our intellectual property assets and believe it will provide us with additional licensing and partnering revenue opportunities.

Products and Services

SCO OpenServer

SCO OpenServer is our UNIX-based legacy offering. Businesses use SCO OpenServer to simplify and speed business operations, better understand and respond to their customers' needs, and achieve a competitive advantage. SCO OpenServer excels at running multi-user, transaction and business applications, communications gateways, and mail and messaging servers in both host and client/server environments. We continue to aggressively support existing users of OpenServer, keeping the operating system current with hardware platforms available in the market. The latest release, OpenServer 5.0.7, will begin shipping in February2003.

SCO UNIXWare

SCO UNIXWare is an advanced deployment platform for industry standard Intelprocessor systems. SCO UNIXWare is a foundation for solutions where proven scalability, reliability and affordability are critical. SCO UNIXWare includes enhancements and refinements to the UNIX platform, representing significant added value for existing UNIXWare customers. The latest release, UNIXWare 7.1.3 began shipping December2002.

SCO Linux

SCOLinux, powered by UnitedLinux, is an ideal product for building internet-enabled business solutions. Based on the Linux 4.0 kernel, the product is a fully integrated and stable Linux operating system. SCO Linux saves users significant time and money in the installation, configuration, deployment, and management of business solutions by providing default working configurations for secure web, file, print, and network infrastructure servers. Each configuration is out-of-the-box secure, easily deployed and manageable, using browser-based remote management and configuration utilities bundled in each system. SCO Linux is designed to permit existing UNIX-based users to migrate to Linux. SCO Linux is easy to manage and maintain using any of the managementtools that are bundled with the product. The latest release, Linux 4.0, began shipping November2002.

SCObiz

SCObiz is a web services platform that enables resellers to provide comprehensive web capabilities to the small business customer. The SCObiz offering, combined with our reseller channel, offers the small business customer with a web solution that is full-featured, adequately customized and delivered at an affordable price. It is an authoring platform that the reseller can use to meet the needs of existing and new small business customers. This permits resellers to use SCObiz to expand their revenue opportunities and provide additional services to their customers.

The SCObiz solution provides a simple but powerful suite of tools to rapidly enable the small business customer to conduct business online. These tools include e-commerce capability, pre-arranged merchant accounts, marketing and promotional tools, visitor tracking, and community building. The SCObiz package also provides automated design services and hosting at the SCObiz data center. These

and other features combine to give the reseller an easy-to-use product that provides real value for their end-user customer without expensive overhead and personnel. SCObiz began shipping in October2002.

SCOoffice Mail Server

SCOoffice Mail Server is a secure, manageable, and easy-to-use messaging server delivering superior application compatibility for small businesses. SCOoffice Mail Server offers an alternative to Microsoft Exchange that is less expensive, easier to install and easier to use. Based on open standards for mail and directory services, SCOoffice Mail Server supports Outlook, browsers, and other popular mail clients. Additionally, it interoperates with popular anti-virus, backup, and fax server software. SCOoffice Mail Server is compatible with other SCO products. The latest release, SCOoffice Mail Server 2.0, began shipping in January2003.

Technical Support Services

We provide a full range of pre and post-sales technical support for all of our products, including SCO OpenServer, SCO UNIXWare and SCO Linux.

We also provide technical support to all of our partners, including resellers, hardware and software vendors, and solution providers, as well as directly supporting our end-user customers. Our partners have the option to direct their customers to us for technical support, or to provide first-level customer support themselves, and utilize our technical expertise for second-tier support.

Technical support services include a range of options from single incident email and telephone support, to dedicated "enterprise" level support agreements. Customers seeking additional technical support directly from us may enter into service agreements that best suit their needs.

Professional Consulting and Custom Development Services

Our UNIX and Linux consulting services include project management, software development and programming, migration tools and services, and development of customized operating systems. We assist our end-user customers, ISVs and solution providers in planning, creating, implementing and deploying business application solutions.

Strategic Alliances

We have business alliances with key global industry partners, including Hewlett-Packard, Unisys, Fujitsu, Fujitsu-Siemens, IBM, Intel, Oracle, Progress, BEA and Computer Associates. These relationships encompass product integration, two-way technology transfers, channel partnerships and revenue generating initiatives in areas of product bundling, OEM agreements and training and education. The objectives of these partnerships include providing complete hardware and software UNIX and Linux solutions and mutually developing our sales and distribution channel by coordinating marketing initiatives in creating demand for our products.

During fiscal year 2002, we made significant progress with our strategic partners, which included:

- support for UnitedLinux from Hewlett-Packard, IBM, Computer Associates, Oracle, BEA, Bakbone, Fujitsu, Fujitsu Siemens, NEC, Toshiba, Progress and AMD,
- engineering services agreements for UNIX and Linux renewed by industry leaders such as Dell, Hewlett-Packard, IBM and Unisys,
- certification of Oracle 9I database and application server on UNIXWare,
- renewed support of SCO UNIX from partners like BEA, Oracle, Progress, IBM, Hewlett-Packard, and Computer Associates,

- conducted SCO Forum and Major Account events sponsored by Intel, IBM, Hewlett-Packard, Computer Associates, Borland and Progress.

We also have alliances with numerous solution providers who write and develop custom applications to run on our Linux and UNIX operating systems. Most of our small business customers which cannot afford high-end solutions or an information technology staff, rely on one of our channel partners for these services. We in turn support these resellers.

Sales and Marketing

Our sales and marketing or field operations are organized into three regions: Americas, Europe, Middle East and Africa ("EMEA") and Asia. Each region includes a sales organization, field marketing, pre and post sales technical support, and local professional service personnel.

Americas

The Americas team is headquartered at the corporate headquarters in Lindon, Utah, with field sales and support personnel located around the United States. This region delivers approximately 51percent of our total revenue. The sales team is further organized into two distinct roles; sales representatives managing our channel partners and a direct sales team servicing our corporate account customer base, including OEM partners.

- Channel Sales—The channel sales team manages the relationship with our value added resellers and vertical solution providers. Value added resellers sell numerous solutions to small business customers in their geographic territory. Vertical solution providers provide bundled applications to specific vertical markets, which include retail point of sale, manufacturing, accounting and medical/pharmaceutical. Many of our value added resellers and vertical solution providers purchase operating system platform products directly from us. In order to efficiently support the thousands of smaller value added resellers and vertical solution providers, we contract with several major distributors in a two-tier distribution model.

- Corporate Sales—This corporate sales team sells directly to our major corporate accounts with replicated sites or franchisees, including McDonalds, Eckerds, Nasdaq and other large corporations. Typically, these customers have an existing suite of third-party or internally developed applications designed to run on our dependable and scalable OpenServer or UNIXWare operating systems. In many cases, our operating system and the application is then deployed in an identical fashion across thousands of replicated sites or franchisees.

EMEA

The SCO EMEA regional team is headquartered in Watford, United Kingdom. This region delivers approximately 38percent of our total revenue. The EMEA organization includes sales, support and marketing teams in all major countries and territories, including the United Kingdom, Germany, France, Italy, Spain, Benelux and South Africa.

The country sales teams perform the same functions as the Americas sales teams, that is, channel sales, corporate account sales and OEM sales. One major difference between the EMEA organization and the Americas organization is that in smaller countries such as Spain, one sales representative will manage both channel and major account sales within that country. EMEA uses local distributors in each location to process all channel orders. EMEA also employs a strategic alliance account manager to supervise relationships with the European arms of our U.S. strategic partners as well as European specific partners.

Asia

The SCO Asia regional team is headquartered in Lindon, Utah. This region is the smallest of our regions and contributes approximately 11percent of our total revenue. The Asia organization is similar to the EMEA organization in that each major country in the region is managed by a country sales manager and includes local support and marketing personnel. Asia offices are in Korea, India, Japan, Australia and Taiwan. We also have a joint venture company located in mainland China.

As in EMEA, Asia teams in smaller countries such as Australia have sales representatives that will manage a geographic territory consisting of both channel and major account sales. Asia uses local distributors to process all channel orders. In Asia, the country sales manager is also responsible for local strategic alliances and OEM customers.

We consider our indirect sales channel one of our most valuable assets. In addition to the current revenue produced by our resellers, these partners are valuable for the influence they possess on the purchasing decisions of small businesses. Our resellers are often not only the primary point of contact for their small businesses customers' purchasing decisions, but their customer's outsourced information technology department. The reach of our network of resellers into the small business community is broad, as evidenced by the base of approximately two million installed servers running various versions of our UNIX operating systems. A critical key to our future success will depend in part on our ability to provide additional products and services to our reseller channel and to communicate our product and corporate strategy to these resellers.

Our marketing efforts support our sales and distribution efforts, promotions and product introductions and include marketing development funds to promote our UNIX and Linux products. Pull marketing, apart from delivering quality products and services needed in the marketplace, is focused on branding, solutions, advertising, tradeshows, press releases, white papers and marketing literature. In particular, our marketing strategy consists of:

- branding SCO through public relations announcements and advertising;
- creating an effective partner program to generate brand awareness and promote our products; and
- increasing public awareness through speaking engagements at strategic tradeshows and conferences worldwide and participating in technology forums.

Our web site, *www.sco.com* , is focused on strengthening our strategy. In addition to allowing visitors to download free software, our web team is expanding our current web strategy of branding, direct sales through our online store, and linking customers to channel partners. Through our web site, we plan to join together ISVs, hardware partners, customers, developers, ISPs and others who want to connect for business reasons and to generate increased business based on introductions, advertising and transactions.

Competition

We face direct competition in the operating system market from providers of non-Linux and non-UNIX operating systems, other providers of Linux and UNIX operating systems, technical support providers and professional services organizations. Companies currently offering competitive non-Linux operating systems include providers of hardware-independent multi-user operating systems for Intel platforms, such as Microsoft, IBM and Novell. These competitors often bundle their operating systems with their hardware products, creating an additional barrier for us to overcome in penetrating their customer bases. There are also significantly more user applications available for competing operating systems, such as Windows NT and Windows 2000, due to the significant market presence of alternative operating systems, particularly those provided by Microsoft.

The Linux market is not characterized by some of the traditional barriers to entry that are found in most other markets, due to the open source nature of the Linux kernel. New competitors or alliances among competitors may emerge and rapidly acquire significant market share. Currently, our principal competitors who provide Linux-based operating systems are Red Hat, Sun, and SuSe.

In the Intel UNIX operating system market, our competitors include Microsoft, Hewlett Packard and Sun. Linux and Windows 2000 are aggressively seeking after the current UNIX operating system market. We believe that with the superior stability and reliability of our UNIX products, that we provide a technological advantage over other competitors in the UNIX operating system market.

We believe that we compete favorably with many of our competitors in a number of respects, including product performance, functionality and price, networking capability and breadth of hardware compatibility. However, many of our competitors are significantly larger than us and have access to greater funding, technical expertise, marketing, and research and development than we do. In addition, many of our competitors have established brand recognition and market presence that may prevent us from obtaining significant market share.

Software Engineering and Development

We have invested and will continue to invest in the development of innovative new product features and technologies in response to the evolving market for Linux and UNIX solutions. We visit customers, application developers, and integrators on a regular basis to understand how effectively our products suit their needs. We collaborate with hardware and software industry partners to insure that the combination of our collective technology will create the most stable and cost effective solution we can deliver.

Our product development process is modeled to standard, commercial software engineering practices. We apply these practices to both documentation and procedures to ensure consistent product quality. As a result, we are able to offer our platform products to OEM customers in several configurations without significant additional effort. We are also able to move our platform products efficiently to new processor platforms as new business opportunities arise.

Intellectual Property

Our success depends in part on our ability to protect our trademarks, trade secrets, and certain proprietary technology. To accomplish this, we rely primarily on a combination of trademark and copyright laws and trade secrets. We also require that our employees and consultants sign confidentiality and nondisclosure agreements. We generally regulate access to, and distribution of, our documentation and other proprietary information. We also enjoy a broad and deep set of intellectual property rights relating to the UNIX operating system. We have recently initiated efforts to garner value from these intellectual property assets and believe it will provide us with additional licensing and partnering revenue opportunities.

Despite our efforts to protect our trademark rights, unauthorized third parties have in the past attempted and in the future may attempt to misappropriate our trademark rights. We cannot be certain that we will succeed in preventing the misappropriation of our trade name and trademarks in these circumstances or that we will be able to prevent this type of unauthorized use in the future. The laws of some foreign countries do not protect our trademark rights to the same extent as do the laws of the United States. In addition, policing unauthorized use of our trademark rights is difficult, expensive and time consuming. The loss of any material trademark or trade name could have a significant negative effect on our business, operating results and financial condition.

Government Regulation

Our success in part depends on the Linux and UNIX operating systems industry, which in turn depends on increased use of the internet for business and other commercial and personal activities. Laws and regulations have been proposed in the United States and Europe to address privacy and security concerns related to the collection and transmission of information over the internet. Our current practices with regards to the collection and transmission of information over the internet do not violate these proposed regulations.

The law of the internet still remains largely unsettled, even in areas where legislative action has already been undertaken. The passage of new laws or changes to existing laws intended to address use of the internet could create uncertainty in the marketplace, increase the cost of doing business on the internet, increase legal liabilities from doing business on the internet or in some other manner have a negative impact on internet commerce and substantially impair its growth. In addition, the growth and development of the market for online commerce may initiate more stringent consumer protection laws, both in the United States and abroad, which may impose additional restrictions on companies conducting business online.

Employees

As of October31, 2002, we had a total of 340 employees. Of the total employees, 75 were in software engineering, 113 in sales, 20 in marketing, 51 in customer service and technical support, 20 in customer delivery, and 61 in administration. From time to time we also employ independent contractors to support our professional services, product development, sales, and marketing organizations. Our employees are not represented by any labor union and are not subject to a collective bargaining agreement, and we have never experienced a work stoppage. In general, we believe our relations with our employees are good.

Risk Factors

We have not been profitable.

We have not been profitable. If our revenue continues to decline or we are unable to efficiently further reduce operating expenses, we may not achieve profitability or generate positive cash flow. For the three months ended October31, 2002, we incurred a net loss of $2.7million and for the year ended October31, 2002, we incurred a net loss of $24.9million. If we are unable to achieve positive cash flow from operations, we will not be able to implement our business plan without additional funding, which may not be available to us.

Our competitive position could decline if we are unable to obtain additional financing.

We may need to raise additional funds to expand our business, support operations, respond to competitive pressures, acquire complementary businesses or technologies or respond to unanticipated requirements. We cannot assure you that additional funding will be available to us in amounts or on terms acceptable to us. If sufficient funds are not available or are not available on acceptable terms, our ability to fund our expansion, take advantage of acquisition opportunities, develop or enhance our services or products, or otherwise respond to competitive pressures would be significantly limited.

If our SCO branding effort is not accepted or causes market confusion, our business may be adversely affected.

We have recently launched a rebranding effort for our products and services as well as our corporate image. On August26, 2002, we announced that, subject to stockholder approval, we would change our corporate name to The SCO Group,Inc. In connection with this announcement, we have renamed our UNIX products and services using the SCO trademark to draw on this strong brand

recognition. We acquired the rights to use this trademark in May2001 from Tarantella in connection with our acquisition of certain Tarantella assets and operations. If the rebranding effort is not accepted by our resellers or customers of our products and services, if the rebranding effort causes market confusion, or if there are negative connotations associated with the trademark that we cannot successfully address, our business may be adversely affected.

If our recently launched products and services are not accepted in the marketplace, our business may be adversely affected.

We have recently launched two new strategic initiatives. In May2002, we and other Linux vendors including Connectiva, SuSe and TurboLinux announced the organization of UnitedLinux, a new initiative that will streamline Linux development and certification around a global, uniform distribution of Linux for business. In August2002, we announced SCObiz, an e-business solution for creating, listing, maintaining supporting, and marketing web sites for small businesses. This product is based on our exclusive license agreement with Vista.com. In addition, we have recently released new versions of our SCO OpenServer, SCO UNIXWare and SCO Linux operating systems. If our resellers or customers do not accept these initiatives or product enhancements, or if the products fail to perform as expected, our business may be adversely affected.

Fluctuations in our operating results or the failure of our operating results to meet the expectations of public market analysts and investors may negatively impact our stock price.

Fluctuations in our quarterly operating results or our failure to meet the expectations of analysts or investors, even in the short-term, could cause our stock price to decline. You should not rely on quarter-to-quarter comparisons of our results of operations as an indication of future performance. Factors that may affect our quarterly results include:

- the interest level of resellers in recommending our Linux and UNIX business solutions to end users;
- the introduction, development, timing, competitive pricing and market acceptance of our products and services and those of our competitors;
- changes in general economic conditions, such as recessions, that could affect capital expenditures and recruiting efforts in the software industry in general and in the Linux environment in particular; and
- changing business attitudes toward Linux and UNIX as viable operating systems compared to other competing systems.

We also experience fluctuations in operating results in interim periods in Europe and the Asia Pacific regions due to seasonal slowdowns and economic conditions in these areas. Seasonal slowdowns in these regions typically occur during the summer months.

As a result of the factors listed above and elsewhere, it is possible that our results of operations may be below the expectations of public market analysts and investors in any particular period. This could cause our stock price to decline. If revenue falls below our expectations and we are unable to quickly reduce our spending in response, our operating results would be lower than expected. Our stock price may fall in response to these events.

We rely on our indirect sales channel for distribution of our products, and any disruption of our channel at any level could adversely affect the sales of our products.

We have a two-tiered distribution channel. The relationships we have developed with resellers allow us to offer our Linux and UNIX products and services to a much larger customer base than we would otherwise be able to reach through our own direct sales and marketing efforts. Some electronic solution providers also purchase solutions through our resellers, and we anticipate they will continue to

do so as we expand our product offerings. Because we usually sell indirectly through resellers, we cannot control the relationships through which solution providers or equipment integrators purchase our products. In turn, we do not control the presentation of our products to end-users. Therefore, our sales could be affected by disruptions in the relationships between our resellers and electronic solution providers or between electronic solution providers and end users. Also, resellers and electronic solution providers may choose not to emphasize our products to their customers. Any of these occurrences could diminish the effectiveness of our distribution channel and lead to decreased sales.

If the market for our Linux products does not grow as we anticipate or if the UNIX market continues to contract, we may not be able to grow our business.

Our revenue from the sale of UNIX based products has declined since we acquired these operations from Tarantella. This decrease in revenue has been attributable to the worldwide economic slowdown as well as from competitive pressures from alternative operating systems. Sales of Linux based products are dependent on the development of certifiable, reliable products for business and the acceptance and adoption of Linux based operating systems by businesses. If the demand for UNIX based products continues to decline, or if such demand is not replaced by new demand for Linux-based products, we may not be able to successfully implement our business plan.

We operate in a highly competitive market and face significant competition from a variety of current and potential sources, including Red Hat and Sun Microsystems; many of our current and potential competitors have greater financial and technical resources than we do; thus, we may fail to compete effectively.

Our principal competitors in the Linux market include Red Hat, Sun and SuSe. In addition, due to the open source nature of Linux, anyone can freely download Linux and many Linux applications and modify and re-distribute them with few restrictions. For example, solution providers upon whom we depend for the distribution of our products could instead create their own Linux solutions to provide to their customers. Also, established companies and other institutions could produce competing versions of Linux software.

In the Intel UNIX operating system market, our competitors include Microsoft, Hewlett Packard and Sun. These competitors are aggressively pursuing the current UNIX operating system market. Many of these competitors have access to greater resources that we do. More recently, the major competitive alternative to our UNIX and Linux products is Microsoft's NT. While we believe that our server products retain a competitive advantage in a number of targeted application areas, the expansion of Microsoft's and our other competitors' offerings may restrict the overall market available for our server products, including some markets where we have been successful in the past.

Our foreign-based operations and sales create special problems, including the imposition of governmental controls and fluctuations in currency exchange rates that could hurt our results.

We have foreign operations, including development facilities, sales personnel and customer support operations in Europe, Latin America and Southeast Asia. These foreign operations are subject to certain inherent risks, including:

- potential loss of developed technology through piracy, misappropriation, or more lenient laws regarding intellectual property protection;
- imposition of governmental controls, including trade restrictions;
- fluctuations in currency exchange rates and economic instability;
- longer payment cycles for sales in foreign countries;
- seasonal reductions in business activity; and

- political unrest, particularly in areas in which we have facilities.

In addition, certain of our operating expenses are denominated in local currencies, creating risk of foreign currency translation losses that could harm our financial results and cash flows. When we generate profits in foreign countries, our effective income tax rate is increased, even though we generate consolidated net losses.

In Latin America and Southeast Asia in particular, several countries have suffered and may be especially susceptible to recessions and economic instability which may lead to increased governmental ownership or regulation of the economy, higher interest rates, increased barriers to entry such as higher tariffs and taxes, and reduced demand for goods manufactured in the United States resulting in lower revenue.

Future changes in accounting standards, particularly changes affecting revenue recognition, could cause unexpected fluctuations in our revenue.

Future changes in accounting standards, particularly those affecting revenue recognition, could require us to change our accounting policies regarding how we record revenue on our software arrangements. These changes could cause deferment of revenue recognized in current periods to subsequent periods or accelerate recognition of deferred revenue to current periods, each of which could cause shortfalls in meeting securities analysts and investors' expectations. Any of these shortfalls could cause a decline in our stock price.

The impact of domestic and global economic conditions may adversely impact our operations.

During the last several quarters the U.S. and European economies have experienced an economic slowdown that has affected the purchasing habits of many consumers across many industries and across many geographies. This has caused the delay, or even cancellation of technology purchases. The ultimate impact of the slowdown in the United States and Europe is difficult to predict, but it has resulted in decreased sales of our products, longer sales cycles and lower prices. If the current slowdown continues, our revenue and results of operations may continue to be lower than expected. In addition, the slowdown may also affect the end-user market making it more difficult for our reseller channel to sell our products.

Our operations are vulnerable to fires, earthquakes, power loss, telecommunications failure, and other events outside our control. The occurrence of any one of these events may have a material adverse impact on our results of operations.

Future sales of our common stock may negatively affect our stock price.

Certain holders of our common stock have demand and piggyback registration rights obligating us to register their shares under the Securities Act for sale. The market price of our common stock could decline as a result of sales of a large number of shares of our common stock in the market, or the perception that such sales could occur. This also might make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate.

If we are unable to retain key personnel in an intensely competitive environment, our operations could be adversely affected.

We will need to retain our management, technical, and support personnel. Competition for qualified professionals in the software industry is intense, and we may be unable to retain sufficient professionals to operate our business. Departures of existing personnel could be disruptive to our business and can result in the departure of other employees.

The loss or departure of any officers or key employees could harm our ability to implement our business plan and could adversely affect our operations. Our future success depends to a significant

extent on the continued service and coordination of our management team, particularly Darl McBride, our President and Chief Executive Officer. We do not maintain key person insurance for any member of our management team.

Item 2. Properties

The Company is headquartered in Lindon, Utah, where it leases administrative, sales and marketing and product development facilities. The Company leases additional facilities for administration, sales and marketing, product development and distribution in Santa Cruz, California, Murray Hill, New Jersey and Watford, United Kingdom. The leases for the Company's facilities expire at various dates through 2008.

The Company's field operations occupy leased facilities in several locations in the United States, and have international offices in China, France, Japan, Germany, India, Italy, Korea and Spain among others. The Company believes that its existing facilities are adequate to meet current business and operating requirements and that additional office space will be available to meet its needs if required.

Item 3. Legal Proceedings

Beginning in July2001, the Company, certain of our officers and directors, and the underwriters of the our initial public offering were named as defendants in a series of class action lawsuits filed in the United States District Court for the Southern District of New York (the "Actions") by parties alleging violations of the securities laws. The complaints were subsequently amended and consolidated into a single complaint. The consolidated complaint alleges certain improprieties regarding the circumstances surrounding the underwriters' conduct during our initial public offering and the failure to disclose such conduct in the registration statement in violation of the Securities Act of 1933, as amended. The consolidated complaint also alleges that, whether or not our officers or directors were aware of the underwriters' conduct, the Company and those officers and directors have statutory liability under the securities laws for issuing a registration statement in connection with our initial public offering that failed to disclose that conduct.

The consolidated complaint also alleges claims solely against the underwriters under the Securities Act of 1933 and the Securities Exchange Act of 1934, as amended. Over 300 other issuers, and their underwriters and officers and directors, have been sued in similar cases pending in the same court. In September2002, the Plaintiffs agreed to dismiss the individual defendants for the time being. We believe that the claims against the Company and any of its officers and directors are without legal merit and we intend to defend them vigorously. We are not aware of any improper conduct by us, our officers and directors, or our underwriters, and we deny any liability relating thereto. In addition, our underwriting agreement with our underwriter provides for the indemnification of the Company and our officers and directors for liabilities arising out of misstatements in our registration statement attributable to material non-disclosures by the underwriters. We also maintain liability insurance coverage that should substantially cover the costs of defending the claims, once a retention amount has been expended.

We have notified our underwriters and insurance companies of the existence of the claims. Recently, motions to dismiss were filed by the underwriters and the issuers with respect to all of the class action cases. The court has not yet ruled on those motions to dismiss, but we expect a ruling in the near term.

In October2002, a former Indian distributor of ours asserted a claim for $1.4million. The distributor claims that we are responsible to repurchase certain software products and to reimburse the distributor for certain other operating costs. Management does not believe that we are responsible to reimburse the distributor for any operating costs and also believes that the return rights related to any remaining inventory have lapsed. In accordance with our revenue recognition policy, revenue related to the inventory with the distributor in included in deferred revenue as of October31, 2002. This matter is in the initial stage of discovery; however, management believes, after consultation with legal counsel, that the ultimate outcome of this matter will not have a material adverse effect on our results of operations or financial position.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of security holders during the fourth quarter of fiscal year 2002.

PART II

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters

The Company's common stock has traded on the Nasdaq National Market since March21, 2000. On August26, 2002, the Company announced its intention to change its name to The SCO Group,Inc., pending stockholder approval. During September2002, the Company changed its trading symbol from "CALD" to "SCOX" in an effort to create awareness around the new branding initiative.

The table below sets forth the range of high and low closing prices (as adjusted for the four- for-one reverse split that occurred during March2002) of the Company's common stock as reported on the Nasdaq National Market for the last two years.

	SCO Common Stock	
	High	Low
Fiscal Year 2001		
Quarter ended January 31, 2001	$ 19.52	$ 7.36
Quarter ended April 30, 2001	14.24	6.00
Quarter ended July 31, 2001	10.24	2.64
Quarter ended October 31, 2001	3.50	1.00
Fiscal Year 2002		
Quarter ended January 31, 2002	$ 6.12	$ 1.12
Quarter ended April 30, 2002	3.32	0.90
Quarter ended July 31, 2002	1.15	0.60
Quarter ended October 31, 2002	2.78	1.29

The closing price for our common stock as reported by Nasdaq on January27, 2003 was $1.25. We have not declared or paid any cash dividends on shares of its common stock and plans to retain its future earnings, if any, to fund the development and growth of its business.

Item 6. Selected Financial Data

The following tables present information based on our financial statements. You should read the selected financial data set forth below in conjunction with the consolidated financial statements and the related notes included elsewhere in this Form10-K and in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this Form10-K. The selected statement of operations data for the years ended October31, 2002, 2001 and 2000 and the selected balance sheet data as of October31, 2002 and 2001 are derived from, and are

qualified by reference to, the audited financial statements and related notes appearing elsewhere in this Form10-K. The selected statement of operations data for the years ended October31, 1999 and 1998 and the selected balance sheet data as of October31, 2000, 1999 and 1998 are derived from audited financial statements not appearing in this Form10-K.

	Years Ended October 31,				
	2002	2001	2000	1999	1998
	(In thousands, except per share data)				
Statement of Operations Data:					
Total revenue	$ 64,241	$ 40,441	$ 4,274	$ 3,050	$ 1,057
Gross margin (deficit)	45,925	25,518	253	124	(1,341)
Loss from operations	(24,176)	(133,636)	(31,999)	(9,103)	(6,853)
Net loss to common stockholders	(24,877)	(131,357)	(39,176)	(9,367)	(7,963)
Basic and diluted net loss per common share	$ (1.93)	$ (10.92)	$ (4.76)	$ (2.04)	$ (2.00)
Weighted average basic and diluted common shares	12,893	12,024	8,231	4,614	4,000

	October 31,				
	2002	2001	2000	1999	1998
	(In thousands)				
Balance Sheet Data:					
Cash and cash equivalents	$ 6,589	$ 20,541	$ 36,560	$ 122	$ 76
Working capital (deficit)	(6,332)	14,401	88,680	678	290
Total assets	37,406	74,859	107,518	3,714	16,353
Long-term liabilities	1,625	5,925	—	6	—
Total stockholders' equity	8,177	34,604	102,215	1,516	708

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our consolidated financial statements and notes thereto, included elsewhere in this Form10-K, and contain forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth under "Risk Factors" and elsewhere in this Form10-K.

Overview

We originally incorporated as Caldera Systems,Inc. ("Caldera Systems"), a Utah corporation on August21, 1998, and reincorporated as a Delaware corporation on March6, 2000. In March2000, we completed an initial public offering of our common stock. On May7, 2001, we formed the Company as a new holding company under the name of Caldera International,Inc., and acquired substantially all of the assets and operations of the server and professional services groups of TarantellaInc., formerly known as The Santa Cruz Operation,Inc., pursuant to an Agreement and Plan of Reorganization, dated August1, 2000 and as subsequently amended (the "Tarantella Acquisition"). In connection with the formation of Caldera International,Inc., Caldera Systems was merged into Caldera International. Former holders of shares and options to purchase shares of Caldera Systems received an equal number of shares and options to purchase shares in the Company.

Prior to the Tarantella Acquisition through which we acquired the OpenServer and UnixWare product lines, substantially all of our revenue was derived from sales of Linux products and services. Currently, over 95percent of our total revenue is derived from UNIX products and services.

Results of Operations

The Tarantella Acquisition significantly increased our revenue and operating expenses. Operating results for fiscal year 2002 are not directly comparable to fiscal years 2001 and 2000 because of the impact of the Tarantella Acquisition, which was effective May7, 2001.

We have reduced the number of our employees from 664 at the time of the Tarantella Acquisition to 340 as of October31, 2002. During the six quarters subsequent to the Tarantella Acquisition, we have experienced a decline in our revenue primarily attributed to the worldwide economic slowdown, and as a result we have implemented cost reduction measures related to personnel and excess facilities and have reduced overall operating expenses. We will continue to make cost-reductions if our revenue continues to decline in order to seek profitability. The following table summarizes our revenue and ongoing operating expenses for the past six quarters (in thousands and unaudited):

	Quarters Ended					
	October 31, 2002	July 31, 2002	April 30, 2002	January 31, 2002	October 31, 2001	July 31, 2001
Revenue	$ 15,468	$ 15,384	$ 15,476	$ 17,913	$ 18,932	$ 18,857
Sales and marketing	6,610	6,908	7,665	8,371	10,450	13,029
Research and development	3,748	4,284	4,159	5,367	6,004	6,662
General and administrative	1,913	2,260	2,523	2,724	3,485	2,691
Total	$ 12,271	$ 13,452	$ 14,347	$ 16,462	$ 19,939	$ 22,382

Pro Forma Fiscal Years Ended October31, 2002 and 2001

As discussed above, the Tarantella Acquisition significantly increased our revenue and operating expenses. Because the revenue and continuing operating results for fiscal year 2002 are not directly comparable to fiscal years 2001 and 2000 as a result of the impact of the acquired operations, this separate pro forma analysis has been presented.

The following table presents our pro forma results of operations for fiscal year 2001, assuming the Tarantella Acquisition had been completed at the beginning of the fiscal year (in thousands and unaudited):

	Fiscal Year 2001			
	Caldera Historical	Tarantella Acquired Operations	Pro Forma Adjustment	Pro Forma Total
Revenue	$ 40,441	$ 47,884	$ —	$ 88,325
Cost of revenue	14,923	13,919	—	28,842
Gross margin	25,518	33,965	—	59,483
Sales and marketing	33,858	21,493	—	55,351
Research and development	16,761	9,773	—	26,534
General and administrative	9,257	5,938	—	15,195
Other	99,278	—	10,664	109,942
Total operating expenses	159,154	37,204	10,664	207,022
Loss from operations	$ (133,636)	$ (3,239)	$ (10,664)	$ (147,539)

The pro forma adjustment above reflects the additional amortization of goodwill and intangible assets that would have been recorded had the acquisition been completed at the beginning of fiscal year 2001.

Revenue

Revenue was $64.2million for fiscal year 2002 and $88.3million (pro forma) for fiscal year 2001, a decrease of $24.1million, or 27percent. The decrease in revenue is primarily attributable to decreased sales of our UNIX products and related services due to a reduction in information technology spending throughout the world. This economic slowdown has affected all of our geographic locations. During fiscal year 2002, 82percent of our revenue was generated from the sale of products and 18percent of our revenue was generated from services. During fiscal year 2001, 86percent of pro forma revenue was generated from the sale of products and 14percent of our pro forma revenue was generated from services. The decrease in product revenue as a percentage of total revenue is attributed to decreasing product revenue while services revenue has remained relatively consistent over the same period.

Cost of Revenue and Gross Margin

Cost of revenue was $18.3million for fiscal year 2002 and $28.8million (pro forma) for fiscal year 2001, a decrease of $10.5million or 36percent. The decrease in cost of revenue during fiscal year 2002 was primarily attributable to decreased revenue. Gross margin for fiscal year 2002 was 71percent and gross margin for fiscal year 2001 was 67percent (pro forma). The increase in gross margin during fiscal year 2002 compared to fiscal year 2001 was attributed to reduced overhead costs and decreased royalties as well as reduced salaries and related costs for our support and professional services groups.

Operating Expenses

Sales and Marketing. Sales and marketing expenses were $29.6million for fiscal year 2002 and $55.4million (pro forma) for fiscal year 2001, a decrease of $25.8million or 47percent. Sales and marketing expenses represented 46percent of total revenue for fiscal year 2002, a decline from 63percent (pro forma) of total revenue for fiscal year 2001. The significant decrease in sales and marketing expenses is attributable to our restructuring activities that have resulted in reduced sales and marketing employees and the realignment of our sales and marketing function into geographic units, designed to improve the efficiency and effectiveness of our sales operations. Other decreases in sales and marketing expenses have resulted from decreased travel and lower commissions and co-operative advertising as a result of lower revenue.

Research and Development. Research and development expenses were $17.6million for fiscal year 2002 and $26.5million (pro forma) for fiscal year 2001, a decrease of $8.9million, or 34percent. Research and development expenses represented 27percent of total revenue for fiscal year 2002, a decrease from 30percent (pro forma) of total revenue for fiscal year 2001. The decrease in the dollar amount of research and development costs in fiscal year 2002 compared to fiscal year 2001 is primarily attributable to decreased salaries and related costs due to fewer engineers and our efforts to consolidate development work on our Linux and UNIX operating systems.

General and Administrative. General and administrative expenses were $9.4million for fiscal year 2002 and $15.2million (pro forma) for fiscal year 2001, a decrease of $5.8million, or 38percent. General and administrative expenses represented 15percent of total revenue for fiscal year 2002, a decrease from 17percent (pro forma) of total revenue for fiscal year 2001. The decrease in general and administrative expenses is primarily attributable to our recent restructuring activities that has resulted in reduced employees and related costs.

Other. Other expenses consist primarily of the amortization of goodwill and intangibles, stock-based compensation, restructuring charges, write-downs of investments and the loss on disposition of long-lived assets. Other expenses were $13.6million for fiscal year 2002 and $109.9million (pro forma) for fiscal year 2001. The decrease for fiscal year 2002 compared to fiscal year 2001 is primarily

attributable to lower stock-based compensation, decreased write-downs of investments and losses on disposition of long-lived assets and decreased amortization of goodwill and intangibles.

Historical Fiscal Years Ended October31, 2002, 2001 and 2000

Revenue

Revenue was $64.2million for fiscal year 2002, $40.4million for fiscal year 2001 and $4.3million for fiscal year 2000, representing an increase of $23.8million from fiscal year 2001 to fiscal year 2002 and an increase of $36.1million from fiscal year 2000 to fiscal year 2001. During fiscal year 2002, approximately 82percent of our revenue was generated from the sale of products. During fiscal year 2001, approximately 84percent of our revenue was generated from the sale of products and during fiscal year 2000 approximately 70percent of our revenue was generated from the sale of products. Revenue from international customers was 49percent of revenue in fiscal year 2002, 52percent of revenue in fiscal year 2001 and 30percent of revenue in fiscal year 2000. Revenue for our three operating divisions for fiscal year 2002 was $33.0million for the Americas, $24.1million for EMEA and $7.1million for Asia. The decrease in percentage of revenue from international customers from fiscal year 2001 to fiscal year 2002 was primarily related to the economic slowdown and lack of information technology spending in EMEA. The increase in revenue in fiscal year 2002 over fiscal year 2001 and in fiscal year 2001 over fiscal year 2000 was attributable almost solely to the sale of UNIX products acquired in the Tarantella Acquisition.

Products. Product revenue was $53.0million in fiscal year 2002, $33.9million in fiscal year 2001 and $3.0million in fiscal year 2000, representing an increase of $19.1million from fiscal year 2001 to fiscal year 2002 and an increase of $30.9million from fiscal year 2000 to fiscal year 2001. The increase in product revenue in fiscal year 2002 over fiscal year 2001 and fiscal year 2001 over fiscal year 2000 was attributable to the sale of OpenServer and UNIXWare products acquired in the Tarantella Acquisition. During fiscal year 2002, OpenServer product revenue was $27.0million, or 51percent of total product revenue, and UNIXWare product revenue was $16.3million, or 31percent of total product revenue. During fiscal year 2001, OpenServer product revenue was $16.5million, or 49percent of total product revenue, and UNIXWare product revenue was $9.5million, or 28percent of total product revenue. We anticipate for fiscal year 2003 that the majority of our product revenue will continue to be derived from sales of OpenServer and UNIXWare products.

Services. Services revenue was $11.3million in fiscal year 2002, $6.6million in fiscal year 2001 and $1.3million in fiscal year 2000, representing an increase of $4.7million from fiscal year 2001 to fiscal year 2002 and $5.3million from fiscal year 2000 to fiscal year 2001. The increase in services revenue in fiscal year 2002 over fiscal year 2001 and in fiscal year 2001 over fiscal year 2000 was primarily attributable to revenue generated by the support and professional services groups acquired from Tarantella . The majority of our support and professional services revenue continues to be from providing these services for UNIX-based operating system products. We anticipate that this trend will continue during fiscal year 2003.

Cost of Revenue

Cost of Products Revenue. Cost of products revenue was $7.6million in fiscal year 2002, $7.0million in fiscal year 2001 and $2.1million in fiscal year 2000, representing an increase of $0.6million from fiscal year 2001 to fiscal year 2002 and $4.9million from fiscal year 2000 to fiscal year 2001. Cost of products revenue as a percentage of products revenue was 14percent in fiscal year 2002, 21percent in fiscal year 2001 and 69percent in fiscal year 2000. The decrease in the cost of products revenue percentage in fiscal year 2002 compared to fiscal year 2001 was attributable primarily to reduced overhead costs and decreased royalties. The decrease in the cost of products revenue percentage in fiscal year 2001 compared to fiscal year 2000 was attributable to a higher proportion of

internet and electronic distribution orders associated with sales of UNIX and Linux products, decreased manufacturing and overhead costs and decreased royalties to third party vendors. For fiscal year 2003, we expect the cost of products revenue as a percentage of products revenue to decrease slightly from fiscal year 2002.

Cost of Services Revenue. Cost of services revenue was $10.8million in fiscal year 2002, $8.0million in fiscal year 2001 and $2.0million in fiscal year 2000, representing an increase of $2.8million from fiscal year 2001 to fiscal year 2002 and an increase of $6.0million from fiscal year 2000 to fiscal year 2001. Cost of services revenue as a percentage of services revenue was 95percent in fiscal year 2002, 121percent in fiscal year 2001 and 153percent in fiscal year 2000. The lower cost of services revenue as a percentage of services revenue in fiscal year 2002 was attributable to reduced employee and related costs in our support services and professional services groups as well as the elimination of certain third party support contracts in an effort to increase the gross margin for these groups. The higher cost of services revenue as a percentage of services revenue in fiscal year 2001 and fiscal year 2000 was attributed to initial infrastructure and other costs of establishing our support and professional services offerings and organizations.For fiscal year 2003, we expect the cost of services revenue as a percentage of services revenue to decrease from fiscal year 2002.

Operating Expenses

Sales and Marketing. Sales and marketing expenses were $29.6million in fiscal year 2002, $33.9million in fiscal year 2001 and $14.8million in fiscal year 2000, representing a decrease of $4.3million from fiscal year 2001 to fiscal year 2002 and an increase of $19.1million from fiscal year 2000 to fiscal year 2001. Sales and marketing expenses represented 46percent of total revenue in fiscal year 2002, 84percent of total revenue in fiscal year 2001 and 345percent of total revenue in fiscal year 2000. The decrease in sales and marketing expense in fiscal year 2002 from fiscal year 2001 was attributable to a reduction in sales and marketing employees, reduced travel expenses, and less commissions and lower co-operative advertising costs as a result of lower revenue. The increase in sales and marketing expense in fiscal year 2001 over fiscal year 2000 was attributable to increased personnel and related costs as a result of the Tarantella Acquisition, increased spending related to corporate branding and costs incurred for product launches. During fiscal year 2000, we expanded our internal sales and marketing staff as well as increased its marketing programs and campaigns, advertising, channel and marketing development and trade show participation. For fiscal year 2003, we anticipate that sales and marketing expenses will decrease in both absolute dollars from fiscal year 2002 as well as on a percentage of revenue basis.

Research and Development. Research and development expenses were $17.6million in fiscal year 2002, $16.8million in fiscal year 2001, and $5.0million in fiscal year 2000, representing an increase of $0.8million from fiscal year 2001 to fiscal year 2002 and $11.8million from fiscal year 2000 to fiscal year 2001. Research and development costs represented 27percent of total revenue in fiscal year 2002, 41percent of total revenue in fiscal year 2001 and 116percent of total revenue in fiscal year 2000. The increase in research and development expense in fiscal year 2002 over fiscal year 2001 was attributable to development work on our three operating systems, even though we had fewer engineers employed at the end of fiscal year 2002. The increase in research and development expenses from fiscal year 2000 to fiscal year 2001 was attributable to increased personnel and related costs as a result of the acquisitions of the WhatIfLinux technology from Acrylis and operations from Tarantella as our personnel focused on the development of Linux and UNIX operating systems. For fiscal year 2003, we anticipate that research and development expenses will decrease in both absolute dollars from fiscal year 2002 as well as on a percentage of revenue basis.

General and Administrative. General and administrative expenses were $9.4million in fiscal year 2002, $9.3million in fiscal year 2001 and $6.4million in fiscal year 2000, representing an increase of

$0.1million from fiscal year 2001 to fiscal year 2002 and an increase of $2.9million from fiscal year 2000 to fiscal year 2001. General and administrative expenses represented 15percent of total revenue in fiscal year 2002, 23percent of total revenue in fiscal year 2001 and 150percent of total revenue in fiscal year 2000. The increase from fiscal year 2001 to fiscal year 2002 was primarily attributable to supporting our worldwide operations for the entire fiscal year, even though we had fewer administrative employees at the end of fiscal year 2002. The increase from fiscal year 2000 to fiscal year 2001 was primarily attributable to increased personnel and related costs to support our expanded operations as a result of the Tarantella Acquisition. Other increases in general and administration expense were for increased professional services and facilities costs. For fiscal year 2003, we anticipate that general and administrative expenses will decrease in both absolute dollars from fiscal year 2002 as well as on a percentage of revenue basis.

Restructuring Charges. During fiscal years 2002 and 2001, we recorded restructuring charges totaling $6.7million and $3.1million, respectively. The restructuring charges for fiscal year 2002 were comprised of termination payments made to employees in connection with reductions in headcount and the elimination of non-essential facilities. During fiscal year 2002 our headcount decreased from 543 to 340 as a result of the corporate restructurings and we closed or abandoned portions of several facilities. We did not have any restructuring charges in fiscal year 2000. The following table summarizes the activity related to the restructuring charges during fiscal year 2002 (in thousands):

	Balance as of October 31, 2001	Additions	Payments	Adjustments	Balance as of October 31, 2002
Restructuring accrual during quarter ended Oct. 31, 2001	$ 1,405	$ —	$ (1,222)	$ —	$ 183
Restructuring accrual during quarter ended Jan. 31, 2002	—	4,292	(2,268)	(1,561)	463
Restructuring accrual during quarter ended July 31, 2002	—	2,735	(2,555)	—	180
Restructuring accrual during quarter ended Oct. 31, 2002	—	1,262	(301)	—	961
Total	$ 1,405	$ 8,289	$ (6,346)	$ (1,561)	$ 1,787

Amortization of Goodwill and Intangibles. During fiscal year 2002, we recorded $2.9million for the amortization of intangible assets with finite lives. During fiscal year 2001, we recorded $10.7million for the amortization of goodwill and intangible assets in connection with the acquisition of the assets and operations from Tarantella and the WhatIfLinux technology acquired from Acrylis,Inc. The decrease in amortization expense was attributed to a write-down of goodwill and intangibles in the fourth quarter of fiscal year 2001 that decreased the carrying value of these assets.

Loss on Disposition and Write-down of Long-term Assets. During fiscal year 2002, we recorded a write down of long-lived assets of $1.8million, which primarily related to restructurings that occurred during the fiscal year. During fiscal year 2001, we determined that various assets related to the operations acquired from Tarantella and Acrylis were impaired and that the book value as of October31, 2001 exceeded the current estimates of fair value. As a result, we recorded a $73.7million write-down of goodwill and intangible assets. The fiscal year 2001 asset write-down was the result of significant unanticipated decreases in actual and forecasted revenue of the acquired operations, a significant decline in market valuations and general economic conditions, particularly in the information technology sector, a weakening of certain partner relationships, the loss of certain key executives and other factors. During fiscal year 2000, we did not have any losses or write-downs of long-term assets.

Write-downs of Investments. Management routinely assesses the Company's investments for impairments and adjusts the carrying amounts to estimated realizable values when impairment has occurred. During fiscal year 2002, we determined that the current carrying value of one of our investments would not be realized and a write-down was necessary. We recorded a write-down of $1.2million related to this investment. During fiscal year 2001, we determined that the current carrying value of certain of our investments would most likely not be realized and write-downs were necessary. We recorded write-downs of $8.3million related to these investments. The write-downs in fiscal years 2002 and 2001 were due to changes in the general economic conditions and the impact on the operations of these companies as well as a decline in overall market valuations. The Company did not have any write-downs of investments during fiscal year 2000.

Stock-based Compensation. In connection with stock options and shares granted to employees, we recorded stock-based compensation of $1.0million in fiscal year 2002, $1.4million in fiscal year 2001 and $5.2million in fiscal year 2000. The decrease in stock-based compensation from fiscal year 2001 to fiscal year 2002 and from fiscal year 2000 to fiscal year 2001 is a result of lower compensation amounts related to recent option grants and the amortization of previously recorded stock-based compensation.

In-process Research and Development. In connection with the Tarantella Acquisition, we recorded a charge of $1.5million in fiscal year 2001 for the fair value of in-process research and development. The write-off was necessary because the acquired in-process research and development related to UNIXWare 7.1.2 and Messaging Server products had not yet reached technological feasibility and had no future alternative uses. UNIXWare 7.1.2 delivered purpose-built operating system configurations designed to power departmental databases, application servers, intranet servers, mail and messaging servers and other environments specifically tailored to run telecommunications and other embedded environments. At the time of the acquisition, Tarantella had invested approximately 76 man-months of effort (or approximately $0.8million) in the UNIXWare 7.1.2 product and anticipated 122 man-months of effort (or approximately $1.2million) to complete UNIXWare 7.1.2. UNIXWare 7.1.2 was approximately 38percent complete at the time of the acquisition.

The Messaging Server product was an entirely new product, which provides messaging functionality. At the time of the acquisition, Tarantella had invested 36 man-months of effort (or approximately $0.4million) in the Messaging Server product and anticipated 12 man-months of effort (or $0.1million) to complete Messaging Server. Messaging Server was approximately 75percent complete at the time of the acquisition.

The Company did not have any charges for in-process research and development in fiscal year 2002 or fiscal year 2000.

Cost-sharing Arrangement with Tarantella,Inc. During August2000 and after entering into the agreement with Tarantella to acquire the server software and professional services groups, we and Tarantella agreed that we would reimburse Tarantella for certain employee payroll and related costs. The costs for which we agreed to reimburse Tarantella were related to employees that Tarantella had identified for termination in a company-wide layoff in September2000. We viewed these employees as a critical part of the success of the new combined company and Tarantella agreed to retain the employees if we would reimburse Tarantella for a portion of their payroll and related costs. At the time we committed to reimburse Tarantella for these employee costs, the ultimate amount was not determinable and both parties agreed that the amount would be determined prior to the completion of the acquisition. During December2000, both parties agreed, pursuant to an amendment to the reorganization agreement, that we would reimburse Tarantella $1.5million relating to services rendered from Augustthough December2000. Accordingly, during fiscal year 2001 and fiscal year 2000 we recorded $0.6million and $0.9million, respectively, for the cost-sharing arrangement.

Equity in Loss of Affiliate

In May2002, we and other Linux vendors including Connectiva, SuSe and TurboLinux announced the organization of UnitedLinux, a new initiative that will streamline Linux development and certification around a global, uniform distribution of Linux for business. In connection with the UnitedLinux effort, we made a non-refundable $50,000 capital contribution to UnitedLinux LLC in return for a 25percent ownership interest in this entity. The entity's purpose is to oversee the development and provide direction to the UnitedLinux initiative. Because we have a greater than 20percent ownership interest in this entity, the investment has been recorded using the equity method of accounting. Under the equity method, we recognize our portion of the net loss of UnitedLinux LLC in our consolidated statements of operations, which for fiscal year 2002, was estimated to be equal to our initial capital contribution.

Until January5, 2001, we had been accounting for our investment in Ebiz Enterprises,Inc. ("Ebiz") using the equity method of accounting. Under the equity method, we recognized our allocable portion of the net loss of Ebiz in our consolidated statements of operations. During fiscal year 2001 and fiscal year 2000, we recognized $0.6million and $0.4million, respectively, related to our portion of Ebiz's net loss and the amortization of the difference between our investment and the amount of underlying equity in the net assets of Ebiz. Subsequent to January5, 2001, our investment in Ebiz was accounted for under the cost method as our ownership interest in Ebiz was diluted to less than 20percent as a result of Ebiz issuing new shares in connection with an acquisition and the conversion of convertible securities. During fiscal year 2001, Ebiz's financial condition declined and Ebiz filed for bankruptcy protection. Accordingly, our investment was written down to $0.

Other Income (Expense), net

Other income (expense), net, which consists principally of interest expense, interest income and other income, was $(0.2) million in fiscal year 2002, $3.5million in fiscal year 2001 and $5.5million in fiscal year 2000. The decrease in fiscal year 2002 from fiscal year 2001 is attributable to less interest income earned from lower cash balances. The decrease from fiscal year 2000 to fiscal year 2001 was attributable to a $2.3million gain recognized on the sale of the electronic Linux marketplace assets during fiscal year 2000.

Provision for Income Taxes

The provision for income taxes was $0.5million in fiscal year 2002, $0.6million in fiscal year 2001 and $0.1million in fiscal year 2000. The provision for income taxes was related to earnings in foreign subsidiaries. As of October31, 2002, we had net operating loss carryforwards for federal and state income tax reporting purposes of approximately $84.3million that expire at various dates between 2018 and 2022.

The Company had net deferred tax assets, including net operating loss carryforwards and other temporary differences between book and tax deductions, totaling approximately $48.6million as of October31, 2002. A valuation allowance in the amount of $48.6million has been recorded as of October31, 2002 as a result of uncertainties regarding the realizability of the net deferred tax asset balance.

Dividends Related to Convertible Preferred Stock

During fiscal year 2000, we recorded preferred stock dividends of $12.3million. The preferred stock dividends were comprised of (i)a warrant that was sold to an investor in our SeriesB preferred stock and (ii)a beneficial conversion feature related to the issuance of 1.25million shares of SeriesB convertible preferred stock. The estimated fair market value of the warrant was determined to be

$2.3million using the Black-Scholes option-pricing model and the value of the beneficial conversion feature was determined to be $10.0million.

Quarterly Results of Operations

The following table sets forth certain unaudited quarterly statement of operations data for the last eight quarters. This information has been derived from our unaudited consolidated financial statements, which, in management's opinion, have been prepared on the same basis as the audited financial statements and include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the information for the quarters presented. This information should be read in conjunction with the audited financial statements and related notes included elsewhere in this annual report. The operating results for any quarter are not necessarily indicative of the operating results for any future period.

	Quarter Ended			
	January 31, 2002	April 30, 2002	July 31, 2002	October 31, 2002
	(unaudited) (In thousands, except per share data)			
Fiscal Year 2002				
Revenue	$ 17,913	$ 15,476	$ 15,384	$ 15,468
Gross margin	12,233	10,020	11,313	12,359
Loss from operations	(10,914)	(6,441)	(4,242)	(2,579)
Net loss to common stockholders	(11,006)	(6,631)	(4,511)	(2,729)
Basic and diluted net loss per common share	$ (0.77)	$ (0.47)	$ (0.35)	$ (0.26)
Weighted average basic and diluted common shares	14,355	14,235	12,714	10,396

	Quarter Ended			
	January 31, 2001	April 30, 2001	July 31, 2001	October 31, 2001
	(unaudited) (In thousands, except per share data)			
Fiscal Year 2001				
Revenue	$ 1,054	$ 1,598	$ 18,857	$ 18,932
Gross margin (deficit)	(124)	(209)	12,852	12,999
Loss from operations	(10,197)	(13,194)	(19,353)	(90,892)
Net loss to common stockholders	(9,845)	(11,655)	(18,825)	(91,032)
Basic and diluted net loss per common share	$ (1.00)	$ (1.16)	$ (1.36)	$ (6.40)
Weighted average basic and diluted common shares	9,897	9,923	13,941	14,265

Fluctuations in Quarterly Results

Factors that may affect quarterly results include:

- the interest level of solution providers in recommending Linux and UNIX business solutions to end users;
- the introduction, development, timing, competitive pricing and market acceptance of our products and services and those of our competitors;
- changes in general economic conditions, such as recessions, that could affect capital expenditures and recruiting efforts in the software industry in general and in the Linux and UNIX environments in particular; and
- changing business attitudes toward Linux and UNIX as viable operating system alternatives to other competing systems.

As a result of the factors listed above and elsewhere in the "Risk Factors" section of this Form10-K, it is possible that in some future periods our results of operations may fall below management's expectations as well as the expectations of public market analysts and investors. If revenue falls below management's expectations in any quarter and we are unable to reduce spending quickly in response, operating results would be lower than expected.

Liquidity and Capital Resources

Since inception, we have funded our operations primarily through loans from our principal stockholder, and through sales of common and preferred stock.

Beginning in the fourth quarter of fiscal year 2001 and continuing through fiscal year 2002, management implemented significant cost reduction measures. We reduced our employees from 664 at the time of the Tarantella acquisition in May2001 to 340 as of October31, 2002. Our unaudited quarterly operating loss, excluding non-cash expenses and asset write-downs, has been reduced from $10,210,000 for the quarter ended October31, 2001 to $441,000 for the quarter ended October31, 2002. Management believes that our operations will continue to be near breakeven before non-cash expenses for the first quarter of fiscal year 2003. In December2002, we obtained a $2,910,000 line of credit from a commercial bank. Borrowings under the line of credit are secured by a letter of credit from our principal stockholder. As a result of the cost reductions and based on forecasted revenue and availability under the line of credit, management believes that we will have sufficient cash to fund its operations through fiscal year 2003. If our actual quarterly revenue is less than forecasted, management believes additional reductions in operating expenses can be made if necessary. We have engaged an investment-banking firm to assist in obtaining additional equity or debt funding to provide additional working capital and funding for growth and expansion.

However, there can be no assurance that we will be successful in achieving forecasted results or in obtaining additional equity or debt capital in amounts or on terms acceptable to us. If sufficient funds are not available or are not available on acceptable terms, our principal stockholder has confirmed its intent to provide additional financial support in the form of either capital, loans, direct or indirect guarantees of loans or other direct or indirect injections of funds to enable us to continue as a going concern through November2003.

As of October31, 2002, we had cash and cash equivalents of $6.6million and a working capital deficit of $6.3million, which included $10.1million of deferred revenue that does not require dollar for dollar of cash to settle. Our total cash and equivalents decreased by $14.0million from October31, 2001 to October31, 2002. This decrease primarily resulted from cash used in operations of $10.6million, $5.0million of cash used in the settlement of our $8.0million face value note payable to Tarantella and $4.6million of cash used to purchase shares of our common stock held by two significant shareholders, offset by $5.9million of proceeds from available-for-sale securities.

Cash used in operations of $10.6million was primarily attributable to the net loss of $24.9million partially offset by non-cash expenses of $10.1million and cash provided by changes in operating assets and liabilities of $4.2million. Cash used in operations declined in fiscal year 2002 primarily due to our cost-cutting actions.

Net cash used in operations during fiscal year 2001 was $40.1million. Cash used in operations was primarily attributed to the net loss of $131.4million, which was offset by non-cash charges for the write-down of goodwill and intangible assets of $73.7million, the write-down of investments of $8.3million, the amortization of goodwill and intangibles of $10.7million, depreciation and amortization of $2.2million, stock-based compensation of $1.4million, and other non-cash charges of $2.6million. Cash used in operating activities from the changes in operating assets and liabilities was approximately $7.5million.

Net cash used in operating activities during fiscal year 2000 was $21.8million. Cash used in operating activities was primarily attributed to the net loss of $26.9million. We also paid $1.25million to Sun Microsystems,Inc. for certain rights to license software. These uses of cash were partially offset by non-cash charges for the amortization of stock-based compensation of $5.2million and depreciation and amortization of approximately $0.6million.

Our investing activities have historically consisted of equipment purchases, investing in strategic partners and the purchase and sale of available-for-sale securities. During fiscal year 2002, cash provided by investing activities was $5.3million, which was primarily generated from the sale of $5.9million of available-for-sale securities, offset by an investment in a non-marketable security of $0.4million.

Cash provided by investing activities was $23.2million during fiscal year 2001. This consisted of $23.0million paid, net of cash acquired, for the assets and operations from Tarantella and the WhatIfLinux technology from Acrylis as well as $1.5million paid for the purchase of equipment. The cash uses were more than offset by proceeds from sales of available-for-sale securities, net of purchases, of $47.8million.

During fiscal year 2000, cash used in investing activities was $47.0million. Approximately $53.8million was used in purchases, net of sales, of available-for-sale securities to seek to maximize the yield on available cash balances. Additionally, during fiscal year 2000, we invested $2.0million in the common stock of Evergreen Internet,Inc., a strategic partner, paid $3.0million to Ebiz for 3.0million shares of common stock and paid $1.4million for property and equipment. We also received $15.0million from the sale of 2.0million shares of Lineo's common stock.

Our financing activities used $9.0million of cash during fiscal year 2002 and consisted primarily of a $5.0million payment to retire the note payable to Tarantella and $4.6million for the purchase of shares of our common stock held by two investors. These were offset by $0.3million of proceeds received from the exercise of stock options and the purchase of shares of common stock by our employees through our employee stock purchase program of $0.3million.

During fiscal year 2001 our financing activities provided approximately $0.6million of cash as a result of the exercise of vested stock options, the purchase of shares of common stock through our employee stock purchase program and from minority stockholders in our majority-owned Japanese subsidiary.

Financing activities provided $105.3million during fiscal year 2000. The primary sources of cash during fiscal year 2000 included net proceeds of $29.8million received in connection with the SeriesB preferred stock financing completed in January2000 and net proceeds of $71.8million received in connection with the initial public offering in March2000. We also received $3.0million from a stock subscription receivable.

Our net accounts receivable balance decreased from $16.7million as of October31, 2001 to $8.6million as of October31, 2002, primarily related to strong collection efforts and a decline in revenue for the fourth quarter of fiscal 2002 compared to the fourth quarter of fiscal 2001. The allowance for doubtful accounts was $0.3million as of October31, 2002, which represented approximately four percent of our gross accounts receivable balance. Our write-offs of uncollectable accounts have not been material.

We also generate revenue in Central and South America. Historically, revenue and expenses in this region have not been significant. In recent quarters, the economies of the countries of this region have experienced significant volatility. We have reviewed our sales to customers and our accounts receivable from customers in this region and have established reserves for potential bad debts as we believe appropriate. We believe our overall exposure related to transactions in this region is not material.

We have entered into operating leases for our corporate offices located in the United States and our international sales offices. We have commitments under these leases that extend through fiscal year 2008. In recent corporate restructuring activities, we have partially vacated some of these facilities, but still have contractual obligations to continue to make ongoing lease payments that will use available cash. We have pursued and will continue to pursue sublease opportunities, as available, to minimize this use of cash; however, there can be no assurance that we will be successful in eliminating or reducing cash expenditures for these leases.

The following table summarizes our contractual lease obligations as of October31, 2002 (in thousands):

		Operating Leases
Less than one year	$	3,318
One to three years		5,846
Three or more years		3,958
Total payments	$	13,122

In connection with the acquisition of the server and professional services groups from Tarantella, Tarantella agreed to continue as the lessee for certain facilities in the United Kingdom that it would retain and use. We and Tarantella have completed assignment agreements for these leases and Tarantella will be the lease tenant and will have financial responsibility for these leases. However, our United Kingdom subsidiary remained on these operating leases as a second guarantor, and may be liable under these lease obligations in the event that Tarantella defaults. Future operating lease payments under these leases extend through 2020 and total $10.5million. This potential obligation is not included in the above table.

We do not engage in any off balance sheet financing arrangements.

Critical Accounting Policies

Our critical accounting policies include the following:

- Revenue recognition;
- Income taxes and related valuation allowances;
- Software development costs;
- Impairment of long-lived assets; and
- Allowances for doubtful accounts and product returns.

We recognize revenue in accordance with Statement of Accounting Position ("SOP") 97-2, as amended, and Staff Accounting Bulletin ("SAB") 101. Revenue recognition in accordance with these pronouncements can be complex due to the nature and variability of our sales transactions. We recognize product revenue upon shipment if a signed contract exists, the fee is fixed and determinable, collection of resulting receivables is probable and product returns are reasonably estimable, except for sales to distributors, which are recognized upon sale by the distributor to resellers or end users. For contracts involving multiple elements (i.e. delivered and undelivered products, maintenance and other services), we allocate revenue to each component of the contract based on objective evidence of its fair value, which is specific to us. The fair value of each element is based on amounts charged when such elements are sold separately. We recognize revenue allocated to undelivered products when the criteria for product revenue set forth above have been met.

We recognize revenue from maintenance fees for ongoing customer support and product updates ratably over the period of the maintenance contract. Payments for maintenance fees are generally made in advance and are non-refundable. For revenue allocated to education and consulting services or derived from the separate sale of such services, we recognize revenue as the related services are performed. We recognize product revenue from royalty payments upon receipt of quarterly royalty reports from OEMsrelated to their product sales.

Further implementation guidelines relating to SOP 97-2 and related modifications may result in unanticipated changes in our revenue recognition practices and such changes could significantly affect our future revenue and results of operations.

We have provided a valuation allowance of $48.6million against our entire net deferred tax asset as of October31, 2002. The valuation allowance was recorded because of our history of net operating losses and the uncertainties regarding our future operating profitability and taxable income. Had different assumptions been used regarding the valuation allowance and our net deferred tax asset, our income tax provision (benefit) could have been materially different than that reported.

Software development costs incurred in the research and development of new software products to be sold, leased or otherwise marketed are expensed as incurred until technological feasibility in the form of a working model has been established, in accordance with SFAS No.86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed." Internally generated software development costs incurred after technological feasibility was established and prior to product release were not material for fiscal years 2002, 2001 and 2000. We charge our software development costs to research and development expense in its consolidated statements of operations. A change in our policy could significantly affect our future expenses related to software development.

We review our long-lived assets for impairment when events or changes in circumstances indicate that the book value of an asset may not be recoverable. We evaluate, at each balance sheet date, whether events and circumstances have occurred which indicate possible impairment. The carrying value of a long-lived asset is considered impaired when the anticipated cumulative undiscounted cash flows of the related asset or group of assets is less than the carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the estimated fair market value of the long-lived asset.

Subsequent to the acquisition of certain assets and operations from Tarantella, we experienced significant unanticipated decreases in actual and forecasted revenue of the acquired operations, a significant decline in market valuations and general conditions, particularly in the information technology sector, a weakening of partner relationships, the loss of certain key executives and other factors which indicated the recorded values of the long-lived assets were impaired. As a result, we performed a valuation of our long-lived assets as of October31, 2001 and concluded that a $73.7million write-down of goodwill and intangible assets was necessary. As a result of this write-down and other smaller purchase price adjustments, at October31, 2002, we have a net remaining balance for intangible assets of $11.3million and a net remaining balance for goodwill of $0.

Had different assumptions or criteria been used to evaluate and measure the impairment, the amount of the impairment write-off could have been materially different than the $73.7million recorded. Further write downs of goodwill and intangibles may be necessary if the future cash flows of these assets are less than the carrying value.

We offer credit terms on the sale of our products to a significant majority of our customers and require no collateral from these customers. We perform ongoing credit evaluations of our customers' financial condition and maintain an allowance for doubtful accounts receivable based upon our historical collection experience and expected collectibility of all accounts receivable. We also maintain

an allowance for estimated returns based on our historical experience. Our actual bad debts and returns may differ from our estimates and the differences may be material.

Recent Accounting Pronouncements

In June2001, the FASB released SFAS No.143, "Accounting for Asset Retirement Obligations." This statement addresses the accounting treatment for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The provisions of the statement apply to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development, or normal operation of a long-lived asset. The statement is effective for financial statements issued for fiscal year years beginning after June15, 2002. The Company will adopt the provisions of SFAS No.143 during fiscal year 2003, but does not expect this statement to have an impact on our results of operations or financial position.

In October2001, the FASB issued SFAS No.144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS144 supersedes SFAS121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be disposed of." The provisions of SFAS144 are to develop one accounting model based on the framework established in SFAS121 for long-lived assets to be disposed of by sale, and to address significant implementation issues identified after the issuance of SFAS121. The statement is effective for financial statements issued for fiscal year years beginning after July1, 2002. The Company will adopt the provisions of SFAS No.144 during fiscal year 2003, but does not expect this statement to have an impact on our results of operations or financial position.

In June2002, the FASB issued SFAS No.146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement applies to costs associated with an exit activity, including restructuring activities, or with the disposal of long-lived assets. Exit activities can include eliminating or reducing product lines, terminating employees and related contracts, and relocating plant facilities or personnel. Under the provisions of SFAS No.146, entities will be required to record a liability for a cost associated with an exit or disposal activity when that liability is incurred and can be measured at fair value. The provisions of SFAS No.146 are effective for exit activities initiated after December31, 2002. We have not completed an exhaustive analysis of the provisions of SFAS No.146, but we do not expect the adoption of this statement to have a material impact upon our results of operations or financial position.

In November2002, the FASB released FASB Interpretation No.45 ("FIN 45"), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others: an interpretation of FASB Statements No.5, 57, and 107 and rescission of FASB Interpretation No.34." FIN 45 establishes new disclosure and liability-recognition requirements for direct and indirect debt guarantees with specified characteristics. The initial measurement and recognition requirements of FIN 45 are effective prospectively for guarantees issued or modified after December31, 2002. However, the disclosure requirements are effective for interim and annual financial-statement periods ending after December15, 2002. The Company will be required to adopt the provisions of FIN 45 in the first quarter of fiscal year 2003. Management of the Company does not expect the adoption of FIN 45 to have an impact on the Company's results of operations or financial position.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

FOREIGN CURRENCY RISK

We have foreign offices and operations primarily in Europe and Asia. As a result, a substantial portion of our revenue is derived from sales to customers outside the United States. Most of this international revenue is denominated in U.S. dollars. However, most of the operating expenses related

to the foreign-based operations are denominated in foreign currencies and therefore operating results are affected by changes in the U.S. dollar exchange rate in relation to foreign currencies such as the U.K. pound sterling and the Euro, among others. If the U.S. dollar weakens compared to the U.K. pound sterling and the Euro, our operating expenses of foreign operations will be higher when translated back into U.S. dollars and additional funds may be required to meet these obligations. Our revenue can also be affected by general economic conditions in the United States, Europe and other international markets. Our results of operations may be affected in the short term by fluctuations in foreign currency exchange rates. Historically, these amounts have not been significant.

INTEREST RATE RISK

The primary objective of our cash management strategy is to invest available funds in a manner that assures maximum safety and liquidity and maximizes yield within such constraints. We do not borrow money for short-term investment purposes.

INVESTMENT RISK

We have invested in equity instruments of privately held and public companies in the high-technology industry for business and strategic purposes. Investments are accounted for under the cost method if our ownership is less than 20percent and we are not able to exercise influence over operations. Our investment policy is to regularly review the assumptions and operating performance of these companies and to record impairment losses when events and circumstances indicate that these investments may be impaired. As of October31, 2002, our investments balance was approximately $0.3million.

The stock market in general, and the market for shares of technology companies in particular, has experienced extreme price fluctuations. In addition, factors such as new product introductions by our competitors and us may have a significant impact on the market price of our common stock. Furthermore, quarter-to-quarter fluctuations in our results of operations caused by changes in customer demand may have a significant impact on the market price of our stock. These conditions could cause the price of our stock to fluctuate substantially over short periods of time.

Item 8. Financial Statements and Supplementary Data

Index to Consolidated Financial Statements and Schedule

Consolidated Financial Statements:

Financial Statement Schedule:

Independent Auditors' Report

The Board of Directors and Stockholders of
Caldera International,Inc.:

We have audited the 2002 consolidated financial statements of Caldera International,Inc. and subsidiaries as listed in the accompanying index. In connection with our audit of the 2002 consolidated financial statements, we have audited the 2002 financial statement schedule listed in the accompanying index. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audit. The 2001 and 2000 consolidated financial statements and financial statement schedule of Caldera International,Inc. and subsidiaries as listed in the accompanying index were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those consolidated financial statements and financial statement schedule in their reports dated November30, 2001.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Caldera International,Inc. and subsidiaries as of October31, 2002, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related 2002 financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects, the information set forth therein.

As discussed above, the 2001 and 2000 consolidated financial statements of Caldera International,Inc. and subsidiaries as listed in the accompanying index were audited by other auditors who have ceased operations. As discussed in Notes 6 and 12, these consolidated financial statements have been revised to include the transitional disclosures required by Statement of Financial Accounting Standards No.142, *Goodwill and Other Intangible Assets* , which was adopted by the Company as of November1, 2001, and to retroactively reflect a one-for-four reverse stock split of the Company's common stock approved on March4, 2002. We audited the adjustments that were applied to retroactively reflect the reverse stock split in the 2001 and 2000 consolidated financial statements. In our opinion, such adjustments are appropriate and have been properly applied and the transitional disclosures for 2001 and 2000 in Note6 are appropriate. However, we were not engaged to audit, review, or apply any procedures to the 2001 and 2000 consolidated financial statements of Caldera International,Inc. and subsidiaries other than with respect to such adjustments and disclosures and, accordingly, we do not express an opinion or any form of assurance on the 2001 and 2000 consolidated financial statements taken as a whole.

KPMG LLP

Salt Lake City, Utah
January27, 2003

This report is a copy of the previously issued Arthur Andersen LLP report, which has not been reissued since Arthur Andersen LLP has ceased operations. The prior period financial statements have been revised to retroactively reflect a reverse stock split approved on March4, 2002 and to include the transitional disclosures required by Statement of Financial Accounting Standards No.142, *Goodwill and Other Intangible Assets,* which was adopted by the Company as of November1, 2001.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Caldera International,Inc.:

We have audited the accompanying consolidated balance sheets of Caldera International,Inc. (a Delaware corporation) and subsidiaries as of October31, 2001 and 2000, and the related consolidated statements of operations and comprehensive loss, stockholders' equity and cash flows for each of the three years in the period ended October31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Caldera International,Inc. and subsidiaries as of October31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended October31, 2001 in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

Salt Lake City, Utah
November30, 2001

CALDERA INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands)

	October 31, 2002	October 31, 2001
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 6,589	$ 20,541
Restricted cash	1,428	1,894
Available-for-sale securities	—	5,943
Accounts receivable, net of allowance for doubtful accounts of $348 and $362, respectively	8,622	16,742
Other current assets	4,483	3,438
Total current assets	21,122	48,558
PROPERTY AND EQUIPMENT:		
Computer and office equipment	3,884	5,708
Leasehold improvements	724	2,075
Furniture and fixtures	201	1,316
	4,809	9,099
Less accumulated depreciation and amortization	(2,788)	(2,983)
Net property and equipment	2,021	6,116
OTHER ASSETS:		
Goodwill, net	—	2,278
Intangibles, net	11,258	15,408
Other assets, net	3,005	2,499
Total other assets	14,263	20,185
Total assets	$ 37,406	$ 74,859
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 2,467	$ 2,881
Royalty payable to Novell, Inc.	1,428	1,894
Accrued payroll and benefits	4,089	7,013
Other current liabilities	7,632	7,221
Deferred revenue	10,056	8,241
Other royalties payable	669	1,172
Current portion of note payable to Tarantella, Inc.	—	3,845
Taxes payable	1,113	1,353
Payable to Tarantella, Inc.	—	537
Total current liabilities	27,454	34,157
LONG-TERM LIABILITIES:		
Note payable to Tarantella, Inc., net of current portion	—	3,724
Other long-term liabilities	1,625	2,201
Total long-term liabilities	1,625	5,925
COMMITMENTS AND CONTINGENCIES (Notes 1, 12 and 14)		
MINORITY INTEREST	150	173
STOCKHOLDERS' EQUITY:		
Preferred stock, $0.001 par value; 5,000 shares authorized, none outstanding	—	—
Common stock, $0.001 par value; 45,000 shares authorized, 11,412 and 14,266 shares outstanding, respectively	11	14
Additional paid-in capital	214,299	217,209
Warrants outstanding	294	—
Deferred compensation	(644)	(1,290)
Accumulated other comprehensive income	510	87
Accumulated deficit	(206,293)	(181,416)
Total stockholders' equity	8,177	34,604
Total liabilities and stockholders' equity	$ 37,406	$ 74,859

See accompanying notes to consolidated financial statements.

CALDERA INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(in thousands, except per share data)

	Year Ended October 31, 2002	2001	2000
REVENUE:			
Products	$ 52,975	$ 33,878	$ 2,993
Services	11,266	6,563	1,281
Total revenue	64,241	40,441	4,274
COST OF REVENUE:			
Products	7,558	6,966	2,063
Services	10,758	7,957	1,958
Total cost of revenue	18,316	14,923	4,021
GROSS MARGIN	45,925	25,518	253
OPERATING EXPENSES:			
Sales and marketing (exclusive of stock-based compensation of $89, $385, and $1,970, respectively)	29,554	33,858	14,754
Research and development (exclusive of stock-based compensation of $45, $492, and $1,146, respectively)	17,558	16,761	4,954
General and administrative (exclusive of stock-based compensation of $878, $496, and $2,100, respectively)	9,420	9,257	6,430
Restructuring charges	6,728	3,130	—
Amortization of goodwill and intangibles	2,853	10,664	—
Loss on disposition and write-downs of long-lived assets	1,796	73,700	—
Write-downs of investments	1,180	8,309	—
Stock-based compensation	1,012	1,373	5,216
In-process research and development	—	1,500	—
Cost-sharing arrangement with Tarantella, Inc.	—	602	898
Total operating expenses	70,101	159,154	32,252
LOSS FROM OPERATIONS	(24,176)	(133,636)	(31,999)
EQUITY IN LOSSES OF AFFILIATES	(50)	(648)	(387)
OTHER INCOME (EXPENSE):			
Interest income	377	3,605	3,238
Interest expense	(206)	(251)	—
Other income (expense), net	(339)	151	2,306
Total other income (expense), net	(168)	3,505	5,544
LOSS BEFORE INCOME TAXES	(24,394)	(130,779)	(26,842)
PROVISION FOR INCOME TAXES	(483)	(578)	(81)
NET LOSS	$ (24,877)	$ (131,357)	$ (26,923)
DIVIDENDS RELATED TO CONVERTIBLE PREFERRED STOCK	$ —	$ —	$ (12,253)
NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ (24,877)	$ (131,357)	$ (39,176)
BASIC AND DILUTED NET LOSS PER COMMON SHARE	$ (1.93)	$ (10.92)	$ (4.76)
WEIGHTED AVERAGE BASIC AND DILUTED COMMON SHARES OUTSTANDING	12,893	12,024	8,231
OTHER COMPREHENSIVE LOSS			
Net loss attributable to common stockholders	$ (24,877)	$ (131,357)	$ (39,176)
Unrealized gain (loss) on available-for-sale securities	—	(356)	356
Foreign currency translation adjustment	423	143	(52)
COMPREHENSIVE LOSS	$ (24,454)	$ (131,570)	$ (38,872)

See accompanying notes to consolidated financial statements.

CALDERA INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in thousands)

	Convertible PreferredStock		Common Stock								
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Stock Subscription Receivable	Deferred Compensation	Accumulated Comprehensive Income (Loss)	License Fee	Accumulated Deficit	Total
Balance, October 31, 1999	—	$ —	6,652	$ 7	$ 16,180	$ (1,500)	$ (2,735)	$ (4)	$ —	$ (10,432)	$ 1,516
Conversion of common shares to Series A convertible preferred shares	6,596	7	(1,649)	(2)	(5)	—	—	—	—	—	—
Issuance of Series B convertible preferred shares for cash, net	5,000	5	—	—	29,787	—	—	—	—	—	29,792
Dividend related to Series B convertible preferred shares	—	—	—	—	10,000	—	—	—	—	(10,000)	—
Dividend related to stock warrant	—	—	—	—	2,253	—	—	—	—	(2,253)	—
Issuance of common shares upon exercise of stock options	—	—	113	—	532	—	—	—	—	—	532
Issuance of common shares under employee stock purchase program	—	—	15	—	184	—	—	—	—	—	184
Issuance of common shares in exchange for investments	—	—	77	—	2,450	—	—	—	(451)	—	1,999
Distribution to majority stockholder for acquired license rights	—	—	—	—	—	—	—	—	451	(451)	—
Issuance of common shares in exchange for investment in Lineo, Inc. and distribution to majority stockholder for fair value of shares issued in excess of the carryover basis of investment	—	—	313	—	10,000	—	—	—	—	(9,999)	1
Capital contribution from majority stockholder of Lineo, Inc. common shares recorded at carryover basis	—	—	—	—	1,966	—	—	—	—	—	1,966
Sale of common shares of Lineo, Inc.	—	—	—	—	4,213	—	—	—	—	9,999	14,212
Issuance of common shares for services	—	—	4	—	134	—	—	—	—	—	134
Conversion of preferred shares to common shares	(11,596)	(12)	2,899	3	9	—	—	—	—	—	—
Issuance of common shares for cash in an initial public offering, net	—	—	1,437	2	71,780	—	—	—	—	—	71,782
Reclassification of stock subscription receivable due to subsequent receipt of cash	—	—	—	—	—	1,500	—	—	—	—	1,500
Deferred compensation related to stock option grants	—	—	—	—	5,370	—	(5,370)	—	—	—	—
Amortization of deferred compensation	—	—	—	—	—	—	4,390	—	—	—	4,390
Compensation expense for modificationsmade to certain option grants	—	—	—	—	825	—	—	—	—	—	825
Cumulative translation adjustment	—	—	—	—	—	—	—	(52)	—	—	(52)
Unrealized gain on available-for-sale securities	—	—	—	—	—	—	—	356	—	—	356
Net loss	—	—	—	—	—	—	—	—	—	(26,923)	(26,923)
Balance, October 31, 2000	—	$ —	9,861	$ 10	$ 155,678	$ —	$ (3,715)	$ 300	$ —	$ (50,059)	$ 102,214

See accompanying notes to consolidated financial statements.

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Warrants Outstanding	Deferred Compensation	Accumulated Comprehensive Income (Loss)	Accumulated Deficit	Total
Balance, October 31, 2000	9,861	$ 10	$ 155,678	$ —	$ (3,715)	$ 300	$ (50,059)	$ 102,214
Amortization of deferred compensation	—	—	—	—	1,373	—	—	1,373
Removal of deferred compensation related to termination of option holders	—	—	(1,052)	—	1,052	—	—	—
Issuance of common shares upon exercise of stock options	73	—	303	—	—	—	—	303
Issuance of common shares under employee stock purchase program	19	—	126	—	—	—	—	126
Issuance of common shares in connection with acquisitions	4,313	4	62,154	—	—	—	—	62,158
Cumulative translation adjustment	—	—	—	—	—	143	—	143
Unrealized loss on available-for-sale securities	—	—	—	—	—	(356)	—	(356)
Net loss	—	—	—	—	—	—	(131,357)	(131,357)
Balance, October 31, 2001	14,266	14	217,209	—	(1,290)	87	(181,416)	34,604
Issuance of common shares for services	30	—	113	—	—	—	—	113
Compensation expense for modifications made to certain option grants	—	—	73	—	—	—	—	73
Amortization of deferred compensation	—	—	—	—	986	—	—	986
Removal of deferred compensation related to termination of option holders	—	—	(155)	—	155	—	—	—
Reversal of compensation expense previously recorded related to termination of option holders	—	—	(565)	—	—	—	—	(565)
Issuance of common stock for services to officers and key employees	450	1	494	—	(495)	—	—	—
Issuance of common stock for prior services to former Chief Executive Officer	175	—	105	—	—	—	—	105
Issuance of common stock for the cancellation of change in control agreements	105	—	119	—	—	—	—	119
Issuance of common shares upon exercise of stock options	215	—	295	—	—	—	—	295
Issuance of common shares under employee stock purchase program	175	—	291	—	—	—	—	291
Acquisition of common shares from stockholders	(4,804)	(5)	(4,579)	—	—	—	—	(4,584)
Issuance of common shares for a note receivable	800	1	899	—	—	—	—	900
Issuance of a warrant to acquire 200,000 shares of common stock at $0.001 per share	—	—	—	294	—	—	—	294
Cumulative translation adjustment	—	—	—	—	—	423	—	423
Net loss	—	—	—	—	—	—	(24,877)	(24,877)
Balance, October 31, 2002	11,412	$ 11	$ 214,299	$ 294	$ (644)	$ 510	$ (206,293)	$ 8,177

See accompanying notes to consolidated financial statements.

CALDERA INTERNATIONAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
Increase (Decrease) in Cash and Cash Equivalents

	Year Ended October 31, 2002	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (24,877)	$ (131,357)	$ (26,923)
Adjustments to reconcile net loss to net cash used in operating activities:			
Loss on disposition and write-downs of long-lived assets	1,796	73,700	—
Amortization of goodwill and intangibles (including $334 classified as cost of revenue)	3,187	10,664	—
Write-downs of investments	1,180	8,309	—
Depreciation and amortization	2,555	2,204	580
In-process research and development	—	1,500	—
Stock-based compensation	1,012	1,373	5,216
Equity in losses of affiliates	50	648	387
Amortization of debt discount	208	247	—
Loss on disposal of assets	—	165	—
Gain on sale of assets to Ebiz, Inc.	—	—	(2,306)
Issuance of common stock for services	113	—	135
Changes in operating assets and liabilities, net of effects of acquisitions:			
Accounts receivable, net	8,120	(8,137)	(875)
Other current assets	(145)	(666)	(1,122)
Other assets	(1,387)	(903)	10
Accounts payable	(414)	378	1,056
Payable to Tarantella, Inc.	27	(361)	898
Payroll and related	(2,924)	2,134	398
Accrued liabilities	411	985	475
Deferred revenue	1,815	(2,849)	288
Other royalties payable	(503)	410	—
Taxes payable	(240)	297	—
Other long-term liabilities	(576)	1,194	—
Net cash used in operating activities	(10,592)	(40,065)	(21,783)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	(206)	(1,520)	(1,443)
Acquisitions, net of acquisition costs and cash received	(100)	(23,005)	(1,732)
Purchase of available-for-sale securities	—	(5,866)	(101,989)
Proceeds from available-for-sale securities	5,943	53,629	48,188
Sale of Lineo, Inc. common stock	—	—	15,000
Investment in non-marketable securities	(350)	—	(5,000)
Net cash provided by (used in) investing activities	5,287	23,238	(46,976)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from sale of common stock, net of offering costs	—	—	74,782
Proceeds from sale of Series B convertible preferred stock, net of offering costs	—	—	29,790
Proceeds from sale of common stock through ESP program	291	126	184
Proceeds from exercise of common stock options	295	303	532
Purchase of common shares from existing stockholders	(4,584)	—	—
Repayments of long-term debt	(5,000)	—	(9)
Borrowings from majority stockholder	—	—	300
Repayment of borrowings from majority stockholder	—	—	(300)
Minority interest in subsidiary	—	173	—

Net cash provided by (used in) financing activities	(8,998)	602	105,279
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(14,303)	(16,225)	36,520
EFFECT OF FOREIGN EXCHANGE RATES ON CASH	351	206	(82)
CASH AND CASH EQUIVALENTS, beginning of year	20,541	36,560	122
CASH AND CASH EQUIVALENTS, end of year	$ 6,589	$ 20,541	$ 36,560

See accompanying notes to consolidated financial statements.

	Year Ended October 31, 2002	2001	2000
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid for taxes	$ 877	$ 1,313	$ 41
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES:			
Settlement related to Tarantella, Inc. acquisition reflected as an adjustment to the purchase price	$ 3,341	$ —	$ —
Issuance of common shares for a note receivable	$ 900	$ —	$ —
Issuance of non-interest bearing note to Tarantella, Inc. in acquisition	$ —	$ 8,000	$ —
Issuance of common shares and options in acquisitions of certain operations of Tarantella, Inc. and Acrylis, Inc.	$ —	$ 62,158	$ —
Issuance of common shares and the acquisition of a license fee for non-marketable securities	$ —	$ —	$ 1,999
Conversion of 1,649 shares of common stock to 6,596 shares of Series A convertible preferred stock	$ —	$ —	$ 7
Conversion of 6,596 shares of Series A convertible preferred stock and 5,000 shares of Series B convertible preferred stock to 2,899 shares of common stock	$ —	$ —	$ 12
Dividends related to Series B convertible preferred stock	$ —	$ —	$ 12,253
Issuance of common shares in exchange for investment in Lineo, Inc.	$ —	$ —	$ 10,000
Distribution to majority stockholder for fair value of shares issued in excess of the carryover basis of the investment in Lineo, Inc.	$ —	$ —	$ (10,000)
Distribution to majority stockholder for license rights	$ —	$ —	$ (451)
Contribution of additional shares of Lineo, Inc. from majority stockholder	$ —	$ —	$ 1,966
Net book value of Electronic Linux Marketplace assets exchanged for equity investment in Ebiz, Inc.	$ —	$ —	$ (38)

See accompanying notes to consolidated financial statements.

CALDERA INTERNATIONAL,INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) ORGANIZATION AND DESCRIPTION OF BUSINESS

The Company was originally incorporated as Caldera Systems,Inc. ("Caldera Systems"), a Utah corporation, on August21, 1998, and reincorporated as a Delaware corporation on March6, 2000. In March2000, Caldera Systems completed an initial public offering of its common stock (see Note12).

Caldera Systems developed and marketed software and provided services related to the development, deployment and management of Linux-based specialized servers and internet devices. Caldera Systems sold and distributed its software and related products indirectly through distributors and solutions providers, which included value-added resellers ("VARs"), original equipment manufacturers ("OEMs"), vertical solution providers ("VSPs") and systems integrators, as well as directly to end-user customers. These sales occurred throughout the United States and in certain international locations.

On May7, 2001, Caldera International,Inc. (the "Company") was formed as a holding company to acquire substantially all of the assets, liabilities and operations of the server and professional services groups of Tarantella,Inc. ("Tarantella"), formerly The Santa Cruz Operation,Inc., pursuant to an Agreement and Plan of Reorganization (the "Agreement"), dated as of August1, 2000 as amended. Under the Agreement, the Company acquired the tangible and intangible assets used in the server and professional services groups, including all of the capital stock of certain Tarantella subsidiaries. In connection with the formation of Caldera International,Inc., Caldera Systems was merged into Caldera International,Inc. All shares of Caldera Systems' common stock, as well as options to purchase shares of Caldera Systems' common stock, were converted into the same number of shares of common stock of the Company and options to purchase shares of common stock of the Company.

The acquired operations from Tarantella developed and marketed server software related to networked business computing and were one of the leading providers of UNIX server operating systems. In addition, these operations provided professional services related to implementing and maintaining UNIX system software products. The acquisition provided the Company with international offices and a distribution channel with resellers throughout the world.

The Company's business has continued to focus on developing and marketing reliable, cost-effective Linux and UNIX software products and related services for the small business market. The Company continues to market SCO OpenServer and SCO UnixWare products. Additionally, the Company recently renamed its Linux product offering to SCO Linux, powered by United Linux, to draw on the strength of the SCO brand. The Company is continuing to sell Linux and UNIX products and services to customers through an indirect, leveraged worldwide channel of partners, which includes distributors and solution providers. This worldwide distribution channel locally supports customers and resellers with minor modifications that fit their particular country's needs.

As reflected in the accompanying consolidated financial statements, the Company incurred significant losses during the years ended October31, 2002, 2001, and 2000 and the Company's operating activities used $10,592,000, $40,065,000 and $21,783,000 of cash during fiscal years 2002, 2001 and 2000, respectively. As of October31, 2002, the Company has a working capital deficit of $6,332,000. Beginning in the fourth quarter of fiscal year 2001 and continuing through fiscal year 2002, management implemented significant cost reduction measures. The Company reduced its employees from 664 at the time of the Tarantella acquisition in May2001 to 340 as of October31, 2002. The Company's unaudited quarterly operating loss, excluding non-cash expenses and asset write-downs, has been reduced from $10,210,000 for the quarter ended October31, 2001 to $441,000 for the quarter ended October31, 2002.